COMMENTS OF THE COGENERATION ASSOCIATION OF CALIFORNIA

These comments are submitted by the Cogeneration Association of California,[1] whose members are part of the substantial cogeneration industry in California. Over 25% of the total electricity generated in California comes from cogeneration facilities. We appreciate this opportunity for input to assure that the Department of Energy's study of economic dispatch provides for maximum utilization of cogeneration resources while recognizing the operational constraints imposed by their thermal host requirements. We recommend that the study recognize that cogeneration is not fully dispatchable because of its operational constraints, explained fully below. However, the study should also advocate greater flexibility on the part of procuring utilities both in dispatchability and pricing, in order to maximize the use of cogeneration.

As part of the mandate from Section 1234 of the Energy Policy Act of 2005, the Department is examining how economic dispatch might be revised so as to encourage non-utility generation output to be included. Cogeneration is a significant non-utility resource and improvements to dispatch protocols should include maximizing its use. Cogeneration was originally promoted by PURPA which sought to encourage the development of cogeneration and the efficient use of inlet fuels. The nation's policy goals continue to encourage energy efficiency and the effective use of cogeneration. The Energy Policy Act of 2005, in addition to ordering this study, also ordered DOE and FERC to study the benefits of cogeneration (Section 1817). It is also important to reflect on the recent effects of Hurricane Katrina and the reminder that our energy supply is both essential and fragile. Cogeneration often provides an efficient and independent supply of energy for oilfield production and for refineries, and its contribution to the reliability of those parts of the energy supply must be recognized and promoted.

Efforts to maximize utilization of cogeneration must recognize its special operational and host facility characteristics and requirements. Cogeneration links together the production of heat and electricity; as a result, it is important to ensure that the produced electricity and heat meet the host facility's operational requirements and real demands. Excess electricity, not needed at the host facility, can be transmitted into a market place and sold where it is needed. It must be recognized however, that heat or steam (which cannot be easily transported or stored) from cogeneration must be matched to the industrial facility's real-time operational requirements. Therefore, the cogeneration process must be based on the time and place of the need for heat. Most

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[1] **Error! Main Document Only.**CAC represents the power generation, power marketing and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

cogeneration facilities are designed as an integral component of industrial sites, and must meet that process's real need for useful heat; otherwise, the efficiency advantages of cogeneration disappear. Thus, the operating hours of a cogeneration facility are linked to the use of heat in the associated industrial process of the host facility, and therefore the cogenerator's electrical output is generally not dispatchable. This DOE study should recognize these constraints and the need to continue energy efficient operations, and recognize that a cogeneration unit cannot be dispatched below the operating level necessary to meet its thermal obligations. Indeed, federal PURPA regulations, which were enacted in the 1980s to attain the benefits of QF resources, considered the non-dispatchable nature of cogeneration facilities in requiring the nation's utilities to treat QF's as must-take resources.

Although they may not be fully dispatchable, cogeneration facilities have long been a significant and reliable source of power in meeting the generation needs of utilities. Today, however, circumstances suggest that the full use of cogeneration output is not being realized, possibly in violation of PURPA regulations, because utilities refuse to provide reasonable flexibility in their procurement processes. Recent procurement solicitations of utilities throughout the West have been heavily weighted toward buying fully-dispatchable merchant resources, with little effort to accommodate the operating constraints of beneficial cogeneration resources. Bids from cogeneration facilities have either been rejected as non-compliant bids because they are not fully dispatchable, or, when QFs are invited to bid, they have been rejected early in the process because non-dispatchable QF resources are not valued by the utility. In fact, cogeneration projects can provide the same firm, on-peak power as dispatchable resources, and the economic impacts of off-peak production can be resolved through time-of-use pricing. The QF contract of at least one CAC member in California is constructed in just this manner. This DOE study would greatly contribute to the optimal use of cogeneration resources if it would recommend alternatives to full dispatchability requirements, such as time-of-use pricing, while maintaining the must-take nature of cogeneration QF resources.